Bloomberg Tax

Wealth

Super-Rich Americans Paid 97% More Estate Tax During Pandemic

The IRS collected $18.4 billion in such levies last year, though some experts say the increase was likely a one-year blip.

Photographer: Al Drago/Bloomberg

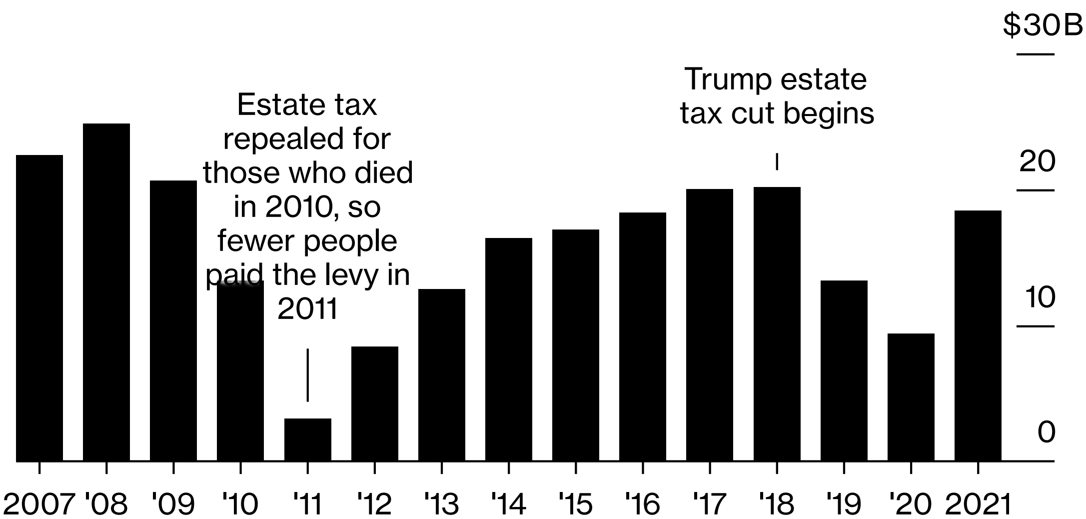
By Laura Davison and Ben Steverman
November 1, 2022, 8:31 AM EDT

US estate tax collections in 2021 hit their highest levels since former President Donald Trump's tax cuts took hold, a stark trend reversal that experts attribute to one-off pandemic factors.

Nearly 2,600 estates paid $18.4 billion in taxes last year, almost double the $9.3 billion collected in 2020, according to data from the Internal Revenue Service. The spike is likely a temporary blip as higher-than-normal death levels and stock and real estate gains meant that more people were rich enough to be subject to the tax.

Estate Tax Collections Ebb and Flow

More deaths, wealth gains contribute to tax revenue in 2021



Source: Internal Revenue Service

During the pandemic, more wealthy Americans “may have been caught with an unplanned estate,” said Jay Soled, a Rutgers University professor and estate-planning attorney. Another dimension is that “increases in the stock market and private equity were pretty stupendous” in recent years, he said.

The 40% levy kicks in for estates worth more than roughly $12 million, or twice that for married couples. About 0.08% of the almost 3.4 million people who died in 2020 were subjected to the tax. Those who did pay collectively reported large jumps in their real estate, publicly traded stock, private equity and hedge fund assets, compared with the group of estates that paid in 2020.

The S&P 500 Index gained 27% in 2021, and a record number of private companies took advantage of soaring markets to sell stock in initial public offerings. Meanwhile, US deaths spiked almost 19% in 2020, the most in a century, and rose again in 2021, according to Census Bureau estimates.

Executors have up to 15 months to file an estate tax return following the death of wealthy individuals, so forms submitted last year could include people who died in 2021, 2020 or late 2019.

The IRS said 369 people worth $50 million or more accounted for 61% of last year's estate tax revenue. The group's average net worth was more than $142 million.

The estate tax has become easy to avoid, thanks to a variety of loopholes that allow the super-rich to pass on wealth at discounted valuations, Soled said. But it's harder to play games with publicly traded stock, he added.

The surge in collections in 2021 is likely a short-term "aberration," said Ron Aucutt, a trusts and estates counsel at Bessemer Trust.

The spike in 2021 is roughly double what federal tax scorekeepers had projected for annual estate tax collections following Trump's cuts, which greatly reduced the number of people subject to the levy. The estate tax exemption for 2022 is $12.06 million for an individual or $24.12 million for a married couple. That's up from a $5.5 million individual threshold prior to the law change.

Still, the $18.5 billion paid last year is a fraction of the more than $4 trillion the US government collects in tax revenue each year. But while the tax is relatively minor dollar-wise, it represents a deeply partisan issue in Washington.

Democrats have talked about expanding the estate tax's reach as a way to address wealth inequality, though they failed to do so in President Joe Biden's tax and climate bill earlier this year. Republicans have proposed repealing the levy, saying it is harmful to family-owned businesses and farms.

Assess your financial health with
Bloomberg's new personal finance tool
Assess your financial health
with Bloomberg's
new personal finance tool
